

WATER/ABJ/DON/EYC:jlj**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA****WATER DIVISION****RESOLUTION NO. W-4374
February 27, 2003****R E S O L U T I O N**

**(RES. W-4374), SAN JOSE WATER COMPANY (SJWC). ORDER
AUTHORIZING AN INCREASE IN RATES TO RECOVER THE
COST TO IMPLEMENT THE CITY OF SAN JOSE'S FIRE
HYDRANT PROGRAM PRODUCING AN INCREASE IN
ANNUAL REVENUE OF \$580,746 OR 0.46%.**

SUMMARY

By Advice Letter No. 336, filed on November 4, 2002, SJWC seeks revision of its tariff Schedules 1, General Metered Service; 1B, General Metered Service with Automatic Sprinkler System; and 6, Resale Service, to provide an increase in revenues of \$580,746 or 0.46%. This increase is to offset the increase in costs experienced by SJWC due to the city of San Jose transferring the responsibility for 11,721 fire hydrants located within SJWC service area to SJWC, effective January 1, 2003. This offset rate increases will not result in a rate of return greater than that authorized by Decision No. (D.) 01-04-034.

BACKGROUND

SJWC requests authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to offset \$580,746 increase in maintenance costs due to the transference of 11,721 fire hydrants from the city of San Jose. The Fire Hydrant Service Agreement became effective by the Commission's D.01-04-034, which authorized the utility to recover the costs in rates to maintain fire hydrants not covered by the local fire protection agency.

SJWC serves approximately 214,560 metered customers in portions of the city of San Jose, Cupertino, Santa Clara, Los Gatos, Monte Sereno, and Saratoga and in contiguous areas in the County of Santa Clara. The present rates of SJWC

became effective on January 1, 2003, in conjunction with Advice Letter No. 337, which authorized a step rate increase of \$3,930,100 or 3.12%, pursuant to D.01-04-034. SJWC's last general rate case was authorized on April 19, 2001, pursuant to D.01-04-034 which authorized a rate of return of 9.11% in 2002.

DISCUSSION

The reasons for the above changes are as follows:

Effective January 1, 2003, the City of San Jose (City) transferred the responsibility of 11,721 fire hydrants located within SJWC service area to SJWC. In accordance with the 1979 "Agreement for Hydrant Maintenance by the City of San Jose" between the City and SJWC, the City provided the required 60-day notification that the Agreement will not be renewed. Therefore SJWC will be responsible for the maintenance and replacement of all fire hydrants within SJWC's certificated service area. The adjustment of \$580,746 is for increases in fire hydrant maintenance costs (\$577,918), local franchise tax (\$1,803), and uncollectibles (\$1,025).

Since these maintenance costs are considered fixed costs, SJWC is requesting to recover 50% of the cost in the service charge. The rate change herein will result in an increase of 0.46% in metered revenues, while the bill for the average residential customer using 15 Ccf (one Ccf is equal to one-hundred cubic feet) per month will increase from \$33.63 to \$33.79, or approximately 0.48%.

Service by SJWC is satisfactory. There are no Commission orders requiring system improvements nor are there any service actions requiring corrective action. SJWC last general rate case D.01-04-034 was issued on April 19, 2001, therefore the utility is within the 3-year rate cycle. SJWC is currently earning a rate of return of 8.68% on a recorded basis and 8.47% on a pro-forma basis, which is below its authorized rate of return of 9.11%.

NOTICE AND PROTESTS

Notice of the proposed increase was published in the San Jose Mercury News on February 7, 2003. In addition, the advice letter has been posted on the company's web site since its filing date. There were no protests concerning the proposed offset increase.

FINDINGS

1. The City of San Jose is transferring the responsibility for maintaining 11,721 fire hydrants located within SJWC's service territory to SJWC effective January 1, 2003.
2. The Fire Hydrant Service Agreement became effective by the Commission's D.01-04-034 which authorized SJWC to recover the costs in rates to maintain fire hydrants not covered by the local fire protection agency.
3. This transfer of responsibility of maintaining fire hydrants will cause SJWC's fire hydrant maintenance costs to increase by \$577,918, local franchise tax to increase by \$1,803, and uncollectibles to increase by \$1,025, or a total of \$580,746.
4. The Commission finds, after investigation by the Water Division, that the changes hereby authorized are justified and the resulting rates are just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. San Jose Water Company is authorized, five days after the effective date herein, to make effective revised tariff Schedules 1, General Metered Service; 1B, General Metered Service with Automatic Sprinkler System; and 6, Resale Service, attached to Advice Letter 336, and to cancel the corresponding presently effective rate schedules.
2. San Jose Water Company is directed to maintain a balancing account as required by Public Utilities Code Section 792.5.
3. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on February 27, 2003; the following Commissioners voting favorably thereon:

WILLIAM AHERN

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DRAFT

February 27, 2003

Executive Director